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DEPARTMENT FOR EUR/SCE

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TAGS: [PGOV](#) [PREL](#) [KAWC](#) [KCRM](#) [PHUM](#) [PREF](#) [HR](#)
SUBJECT: TWO YEARS IN POWER: RESILIENCE AND STABILITY OF
SANADER GOVERNMENT

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 C. C) ZAGREB 1844
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 E. E) ZAGREB 834
 F. F) ZAGREB 827

Classified By: Ambassador Ralph Frank for reasons 1.4 (b) & (d).

1. (SBU) SUMMARY AND COMMENT: During his second year in office, PM Ivo Sanader led his Croatian Democratic Union (HDZ) through domestic difficulties and over critical Euro-Atlantic integration hurdles. At the same time, he sustained a government coalition whose unquestionable stability defies the conventions of public opinion polls and parliamentary seat counts. His government continues to be a strong force for regional stability and has made steady progress in addressing such critical issues as refugee returns and trafficking in persons. Sanader again added to the international credibility of the HDZ this year while sidelining or eliminating extremist voices within the party.

2. (SBU) Sanader's trouble spot remained much the same as during his first year in office: he is most successful internationally while the public believes his government should focus domestically. With the opening of EU negotiations in October, Sanader is now able to do just that - relax his international agenda and concentrate on the troubled Croatian economy. He can already point to success in resolving the nation's debt to its pensioners, a legacy of Croatia's war budget that no previous government has been willing or able to tackle. Sanader also got as much political mileage as he could from the summer opening of the Zagreb-Split highway, something of tremendous symbolic significance, but he will need to seriously address unemployment and budget-draining state enterprises in the coming year to gain public confidence in the GoC's domestic program.

3. (U) The following assessment of GoC accomplishments is organized according to Post's 2005 MPP goals. END SUMMARY AND COMMENT.

TIES WITH ALLIES & FRIENDS: ACCESSION PROGRESSION

4. (SBU) During the year, PM Sanader continued to focus the majority of his energy on courting European Union officials with an eye on integration. After a six-month delay, Sanader secured the opening of Croatia's EU membership negotiations when his government provided key intelligence on the whereabouts of International Criminal Tribunal for the former Yugoslavia (ICTY) indictee Ante Gotovina, satisfying the EU's requirement for full cooperation with the Tribunal (ref A).

Gotovina's subsequent arrest by Spanish authorities removed the last significant political barrier to Croatia's future in both the EU and NATO while adding another layer to Sanader's challenge in building domestic public support for his integration goals.

¶5. (SBU) The ultimate success of Sanader's Action Plan to locate Gotovina demonstrated a new level of maturity within the GoC, requiring interagency coordination and information control not previously seen in Zagreb. The upcoming months of EU membership negotiations will show whether Sanader's government is ready for this type of technical coordination on a wider scale.

TIES WITH ALLIES (cont'd): A NEW FOCUS ON U.S. RELATIONS

¶6. (C) With the EU nut cracked, the Sanader government has launched a concerted effort to strengthen relations with the U.S. The MFA regularly consults with the Embassy on this strategy and has intensified efforts to attract high-level Administration and Congressional visits. Hopeful of U.S. support for Croatia's NATO candidacy, the GoC warmly welcomed this month's favorable Congressional resolutions while trying to keep public expectations about a near-term membership invitation realistic.

¶7. (C) Recent overtures to the Embassy related to Article 98 indicate the GoC is serious about finding a solution to this key issue. President Stjepan Mesic has flatly told the Ambassador in the past that an Article 98 agreement was politically unfeasible while Croatia was expected to send its citizens to The Hague. Now that Croatia's last fugitive has been apprehended, public opposition to Article 98 may slowly

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begin to soften and open some maneuvering space.

¶8. (SBU) Most recently, the GoC has indicated willingness to pursue a bilateral agreement necessary to allow certain U.S. citizens access to Croatia's law on restitution of property seized by the Yugoslav government. Despite opposition and media attacks over a similar agreement with Austria, the GoC remains committed to resolving this longstanding issue.

¶9. (U) Sanader continues to seek ways to support U.S. efforts in Iraq while avoiding an actual troop presence. His government has been quick with statements in support of Iraqi elections and welcoming the new government. In mid-2005, the GoC sent three police instructors to the Jordan International Police Training Center. The GoC also approved a tripling of Croatian forces in Afghanistan, from 50 to 150, and contributed troops to a joint Adriatic Charter (A-3: Croatia, Albania, Macedonia) medical unit in Kabul.

REGIONAL CONFLICTS: NORMALIZATION TAKES HOLD

¶10. (SBU) The most dramatic thing about Croatia's relations with its neighbors during the year was the absence of anything dramatic. With the exception of small bursts of outdated rhetoric around a May Chetnik rally in Serbia (ref E) and the tenth anniversary of Croatia's Operation Storm in August, the GoC has maintained normal relations with the government of Serbia and Montenegro (SaM). Sanader hosted SaM PM Vojislav Kostunica in November (returning Sanader's November 2004 visit to Belgrade), and several ministries exchanged visits throughout the year. While refugees and missing persons remain thorny issues, Zagreb now appears to understand that relations with Belgrade are key to achieving their mutual goal of regional stability.

¶11. (SBU) The GoC has continued constructive engagement with the government of Bosnia and Herzegovina (BiH) while supporting the Bosnian-Croat community on such issues as dual citizenship, veterans' benefits, and equal rights.

Bosnian-Croats' voting rights in Croatia's national elections came under domestic political debate following what many saw as their undue influence in the January presidential election but remain unchanged.

¶12. (SBU) Longstanding bilateral issues with Slovenia continued to rankle politically but inched toward resolution. The dispute surrounding the maritime border appears increasingly likely to be headed for international arbitration, while a European Court of Human Rights ruling in favor of Croatian claimants in a dispute over pre-war deposits in Slovenia's Ljubljanska Banka has set some restitution claims in motion.

REGIONAL CONFLICTS (cont'd): CLOSING THE REFUGEE FILE?

¶13. (U) The GoC proactively worked on refugee returns with the aim of resolving all open issues by the end of 2006 per a January trilateral agreement with SaM and BiH. In July, Croatia presented its refugee return "road map" to the international community with detailed benchmarks through ¶2006. Of the approximately 9,000 houses rebuilt this year, more than 70 percent were for ethnic Serbs. Repossession of houses by Serbs is almost complete, with only 55 cases remaining, and the Croatian Electricity Company (HEP) began electrification of 50 primarily Serb villages.

¶14. (U) The GoC has fallen short, however, in some areas, including addressing problems surrounding repossessed properties either devastated or modified by the temporary occupants. Of some 9,000 requests to provide homes for former residents of socialized housing, only a few dozen were resolved by year's end. Human rights NGOs and representatives of the Serb minority complained of a rise in violent incidents against ethnic Serbs, particularly in the Dalmatian hinterlands. Police have identified perpetrators in only about one-third of the 50 incidents investigated in ¶2005.

ECONOMIC GROWTH: UNEVEN PROGRESS

¶15. (SBU) To judge the Government's economic accomplishments by words and not deeds, one would be justified in concluding that Croatia is finally ready to make the difficult choices necessary to encourage greater economic growth. Unfortunately, however, the Government's rhetoric has not always been matched by the fortitude to take on established

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interests or recalcitrant local officials. As a result, the HDZ's economic achievements after two years in office are decidedly mixed. Progress in some areas, such as streamlining bureaucracy and reining in chronic deficits has been offset by stagnation elsewhere, most notably in the failure to privatize or liquidate loss-making state industries and reform the public sector, which accounts for an inordinately large percentage of GDP.

¶16. (SBU) After years of false starts and broken promises, the last year has seen progress in efforts to improve Croatia's investment climate. A government project to reduce the time necessary to register a business, called the One Stop Shop, is up and running. Although not a single stop, the project has apparently reduced the time necessary to register a new limited liability company to just 5 days, efficiency unthinkable in Croatia just a few years ago. Similar efforts to digitize land records and make them available on line are starting to reduce previously interminable back logs in the issuance of property deeds, reducing opportunities for graft in the process. An investment promotion agency is also operational for the first time after several false starts.

¶17. (SBU) In the area of monetary policy, the Sanader

government's stewardship of the economy has been relatively steady, with a strongly independent central bank able to stay above the political fray. As a result, inflation has remained relatively low (although 2005 figures are likely to be higher following the rise in energy prices) and the exchange rate steady. On the fiscal side, Croatia's "precautionary" Stand-By Arrangement with the IMF has forced the Government to begin to rein in its deficit, expected to be 4.2 percent of GDP in 2005 and targeted at 3.3 percent in 2006.

ECONOMIC GROWTH (cont'd): THE MORE THINGS CHANGE . . .

¶18. (SBU) To hear the Government trumpet its economic successes, one would believe that EU accession negotiations, E-government, rising tourism receipts and the IMF's seal of approval are all that Croatia needs to catch up with its more advanced northern neighbors. Unfortunately, there is another reality that this government has been reluctant to confront head on. Government subsidies to loss-making industries and agriculture continue to suck up approximately 3 percent of the country's \$32 billion GDP. The last year has seen virtually no progress in the privatization or resolution of the state's still large portfolio of loss-making assets, including shipyards and metal works. In fact, the Government backed out of two privatization deals in the face of vociferous opposition from local politicians and labor unions, removing the head of the privatization office in the process. The state sector in general remains bloated as well, with entitlements and healthcare costs all running above the EU average. As a percentage of GDP, the Croatian state's share is approximately 40 percent, high even by European standards.

¶19. (SBU) Where reform has also been slow to come is in changing the way of doing business to a system where resources are allocated on the basis of economic merit rather than political or personal relationships. This Government came to office promising accountability and efficiency, but has little to show for it so far. Many public tenders are carried out under less than transparent circumstances (if they are carried out at all), providing endless fodder for the scandal-hungry press and sending the message to potential foreign investors that business is not conducted on a level playing field in Croatia. Until the Government addresses these problems, Croatia will continue to grow at a slower rate than is necessary if it is to boost living standards and reduce a stubbornly high unemployment rate.

RULE OF LAW: THE SLOW PACE OF REFORM

¶20. (SBU) The GoC continued to make steady progress in the professionalization of its police force, gradually improving investigations and building public confidence. Sanader reinforced this with key leadership changes, including appointment of the progressive and energetic Minister of Interior Ivica Kirin in mid-2005. Under U.S. and EU mentorship, Croatian police formed their first-ever police-prosecutor task force to tackle an organized crime group involved in drug smuggling. Justice Minister Vesna Skare Ozbolt pursued aggressive judicial reforms during the year, making significant progress in eliminating case

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backlogs, but judicial discipline remains a chronic problem outside of major urban courts.

¶21. (SBU) Croatian police and prosecutors made their first serious witness protection efforts in 2005 thanks to USG-funded training and other international assistance. While initially marred by excessive media exposure, Croatia's fledgling witness protection program is maturing rapidly and will prove critical to the prosecution of organized crime and war crimes.

¶22. (SBU) In addition to the Gotovina hunt, the Sanader government achieved increased success in domestic war crimes prosecutions, though ethnic bias remains a problem. Several ongoing cases involve retrials of Croatian defendants improperly acquitted in the past, and the quality of court proceedings has increased markedly from the initial trials. In recognition of this improved atmosphere, the ICTY completed transfer of the case against Rahim Ademi and Mirko Norac to the Croatian judiciary in October.

¶23. (SBU) Croatia showed significant improvement in the fight against trafficking in persons and was removed from the Department's Tier Two watch list in 2005. The GoC undertook serious prevention and public awareness campaigns. Anti-TIP training to police, prosecutors and judges began to pay off, as Croatia convicted one trafficker during the year and has prosecutions now pending against 13 suspected traffickers.

DEMOCRACY - POLITICAL STABILITY DESPITE THE NUMBERS

¶24. (SBU) While the HDZ's poll numbers have dropped during the year (mostly in a likely temporary surge in the popularity of the far-right Croatian Party of Rights - HSP - ref C), Sanader's governing coalition remains solid. The PM's parliamentary majority may be slim on paper, but he has a growing number of informal allies he can call on as needed, as he did when passing the GoC's most recent budget in November by a three-to-one margin. Early parliamentary elections remain highly unlikely in the near term. Emboldened by rising poll numbers, the opposition Social Democratic Party (SDP) has stepped up its rhetoric slightly, calling for early elections by the end of 2006, but it continues to lack the votes in parliament to launch a credible no-confidence campaign.

¶25. (U) The GoC oversaw two successful elections in 2005 - presidential in January and local in May. Both were deemed free and fair, though the local elections highlighted the need for two practical reforms: introduction of the direct election of mayors/county prefects and the establishment of a permanent state electoral commission. The GoC has introduced legislation on both reforms to Parliament.

¶26. (SBU) The local elections also demonstrated the resilience of the HDZ, making the most of post-electoral coalitions after lackluster electoral results. Some negotiations, however, led to tensions with national coalition partners in the Independent Democratic Serbian Party, whose officials were shut out of the HDZ's local coalitions in Knin and Vukovar.

DEMOCRACY (cont'd) - MANAGING THE NATIONALIST RIGHT

¶27. (SBU) Following the Gotovina arrest, Sanader demonstrated his firm grip on rhetoric within the party. Protests in support of Gotovina remained peaceful and controlled under Sanader's influence (ref B), and those who pushed for more radical and nationalist demonstrations were unable to muster support. In the meantime, the GoC is delicately shifting its focus from the Gotovina manhunt to the Gotovina defense, where it will play a role countering elements of the ICTY indictment citing a "joint criminal enterprise" involving members of the then Croatian government.

¶28. (SBU) Sanader continued his housecleaning of the HDZ during the year, isolating or eliminating the party's extreme nationalists. Most notably, he expelled Eastern Slavonian strongman Branimir Glavas from the HDZ early in the year. While Glavas mounted an impressive local election comeback in Osijek and the surrounding county in May, routing the HDZ with his independent list of loyalists (ref F), his national influence has withered. An aggressive police investigation into war crimes committed in Osijek in 1991 has implicated Glavas and forced him to concentrate his energies locally

(ref D).

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¶29. (SBU) Andrija Hebrang, former Deputy Prime Minister and Minister of Health and Social Welfare, left the cabinet for health reasons in the spring but has remained active within the party and Parliament. With less responsibility, Hebrang has re-emerged as the loudest voice from the HDZ's far right, though some suspect with Sanader's silent approval. Hebrang and his attacks on critics of Croatia's past leadership are useful to Sanader, placating opponents of party reforms and keeping the HDZ's right wing from being lost to the HSP. While Hebrang shows the party's traditional conservative base that the HDZ has not forgotten them, Sanader can go about the important business of tackling Croatia's difficult economic problems and educating the public on the benefits of integration and EU and NATO membership.
FRANK